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# Ways to Offset High Interest, Rising Cost of Housing

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# Ways to offset high interest, rising cost of housing

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**Chester Smolski**

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Little noticed by the general public, the recent decision by the Federal Reserve Board to make credit more costly and less easily available is having a marked impact on that same public, especially in the area of housing.

The Federal Reserve decision of Oct. 6 was aimed at curbing an inflation rate that has gone from 4.6 percent in 1976 to 6.5 percent in 1977, 9 percent in 1978, and more than 12 percent projected for this year. Appropriately, the Federal Reserve action came during the same month in which housing costs rose at their steepest rates since 1947.

An immediate result of the Fed's action has been to push home mortgage interest rates up from 10 percent in September to a current high of 14 percent in some parts of the nation. In Rhode Island the common mortgage rate is now 13 percent plus three points.

Unless actively looking, one is not fully appreciative of these astronomical mortgage rates as well as house prices in the country today. In the tight California market the average price for a house is now \$110,000, while in Orange County in the south of that state, the median price in October was \$113,000. For the nation as a whole, the average price of a new house in September was \$75,500, while an existing house was priced at \$67,900.

In Rhode Island average house prices tend to be less than the national average, a result of generally lower wage rates and a state-sponsored program to provide below-market rate interest on mortgages to families with lower incomes. The Rhode Island Housing and Mortgage Finance Corporation provides mortgage money, through local banks, to an estimated two-thirds of all residential mortgages in the state, at an average house price of \$39,100 between 1977 and 1979. These lower-priced homes help reduce the average selling price of a new house in this state, which in September was \$63,707. The average for an existing house was \$51,639.

Unfortunately, these inordinately high mortgage rates and house prices have come at just the time when the "baby boom" people of the '40s and '50s are in the market for housing. For example, the number of 30-year-olds, the prime buying age, will increase from the current 32 million to 42 million in the next 10 years. But the real question is whether they can buy such expensive housing.

There are two possibilities that provide hope for these potential home buyers. First is the availability of older houses in the cities. Sometimes abandoned, in poor neighborhoods, and usually requiring considerable work to restore, these inexpen-

sive houses provide a real opportunity for good housing. This movement to the city, termed gentrification by the English, also offers renewed hope for the city to regain the children of the postwar middle class expatriates to the suburbs.

A second way to lower housing costs is to have local planning boards change their zoning requirements to allow higher housing densities. Why should burgeoning suburban communities require two or more acres for each single-family house when — with imaginative planning and design — four, six or even more houses could easily be sited on an acre of land?

Higher housing density means that land is used more efficiently and cheaply, costs of putting in roads, utilities and such infra-structure are reduced, houses can be less expensive to build and are more energy efficient because they are closer together and sometimes joined, and a public transportation system can be more readily justified and supported.

There are several ways in which housing density can be increased: easiest is to site more single-family houses on each acre of land. It was common to build four and five houses to the acre in the post-war period, and there is no good reason why this cannot be done again if good design is used.

A second method is to cluster houses, sometimes using duplex units in addition to single-family units, and leave blocks of nearby land for open space. That several communities in the state allow cluster development indicates that too few of the other communities recognize and utilize this efficient and functional method of siting houses.

Another method to provide higher density is to join houses with common walls. Although some equate these units with "company houses" of our old mill villages, good design makes these two-story units attractive, less expensive and more energy efficient than conventional housing.

Efficient use of land and common wall houses are well illustrated in the Elmhurst Arboretum development in Providence, where 49 buildings containing 98 units will be built on nine acres. Attractively arranged at 11 units per acre, individual units originally sold at nearly 20 percent less than conventional new houses.

House prices are inordinately high, and there are many young people who desperately need housing. Planning boards have it in their power to reduce the cost of housing by providing for increased housing density. If these boards take the initiative, they can help alleviate the housing price escalation. And they will do this primarily for that group of 30-year-olds currently in the market — our grown children.

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